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Meatpackers' Costs for Slaughtering Hogs and Distributing Fresh Pork

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MEATPACKERS' COSTS FOR SLAUGHTERING HOGS AND DISTRIBUTING FRESH PORK 1/

How much of the price the consumer pays for pork is typically paid for meatpackers' services? How are costs of these services allocated among labor, packaging materials, buying and selling, and operating overhead? And how stable are the packers' margins on pork operations when volume of slaughter and prices of live hogs change seasonally?

A recent survey of meatpacker costs in commercial-scale fresh pork operations provides some information. Reporting packers were located in the eastern and western Corn Belt and adjoining Southern and Mid-Atlantic States. (Records from packers not slaughtering, or those slaughtering mostly extra heavy hogs and sows, were excluded for the analysis).

Costs to Packers

Costs to meatpackers for slaughtering, cutting, packaging, loading, shipping, and delivering services comprised about 6 percent of the average retail price of pork (59 cents per pound) during the fall and winter of 1962-63, when costs were obtained. Of this retail price, the farmer got an average of about 50 percent.

In this survey, packers' costs of buying hogs averaged a little more than 0.1 cent per wholesale pound, and costs of selling pork cuts to wholesale and retail customers averaged nearly 0.3 cent (table 7).

On the average, reporting packers incurred costs of 2.7 cents per pound in slaughtering, cutting, packaging, and loading fresh pork cuts such as loins and green (uncured) cuts. For cured hams, slab bacon, and picnics, another 7 to 15 cents per pound was incurred for curing, smoking and packaging. An additional 0.2 cent per pound represented packers' costs for shipping pork cuts from packing plants to wholesale distribution centers. For local delivery direct to retailers, packers incurred an additional 0.25 cent per pound. These are costs meatpackers must cover before they make any gross profit. Packer branch houses handle an important fraction of the pork sold by packers; and on this volume, additional costs for handling, selling, and delivery must be added.

Meatpacker Cost by Function

How were packer's costs in pork operations allocated among labor, packaging, buying and selling, and operating overhead?

For fresh pork, labor amounted to approximately one-half of packers' total costs of slightly more than 3.6 cents per pound. Procurement and selling costs made up about one-tenth, or 0.4 cent, and packaging cost amounted to 0.26 cent per wholesale pound (table 8). For ham, bacon, and picnics, labor costs made up the largest portion of the total extra cost of curing and smoking, ranging from 1.5 to 4.25 cents per pound; packaging cost ranged from 0.2 cent to 2.0 cents, and overhead from 1.25 to 3.0 cents per pound.

Costs in the fresh pork operation were distributed similarly among functions during both fall and winter quarters 1962-63, and were not greatly different from averages reported for the full marketing year September 1959-August 1960. 2/

For firms reporting labor cost, by task, 0.63 cent per pound of retail pork represented costs for killing hogs, 0.51 cent for cutting pork carcasses into primal cuts, 0.07 cent for additional cutting and special trim, and 0.22 cent for labor in

1/ Prepared by Donald B. Agnew, agricultural economist, Marketing Economics Division, Economic Research Service.

2/ "Meatpacker Costs for Slaughtering, Cutting and Marketing Fresh Pork," by Donald B. Agnew, ERS No. 23, reprint from The Marketing and Transportation Situation July 1961, ERS--USDA, pp. 39-42.

Table 7.--Fresh pork: Packers' cost per wholesale pound, by function, fall and winter 1962-63

Function	Oct.-Dec. 1962	Jan.-Mar. 1963
	Cents	Cents
Buying hogs	0.14	0.14
Dressing and packaging	2.72	2.70
Shipping dressed pork	0.25	0.20
Selling	0.29	0.30
Packers' costs for fresh pork	3.40	3.34
Distribution to retailers	0.25	0.27
Packers' total costs	3.65	3.61

Table 8.--Fresh pork: Packers' operating cost per wholesale pound, fall and winter 1962-63

Item	Oct.-Dec. 1962	Jan.-Mar. 1963
	Cents	Cents
Killing and cutting-room labor	1.21	1.21
Packaging	0.26	0.26
Order filling and carloading	0.22	0.22
Procurement and selling	0.43	0.44
Fixed plant and administrative	1.03	1.01
Total operating costs	3.15	3.14
Transportation to distribution centers	0.25	0.20
Local delivery	0.25	0.27
Total shipping and delivery	0.50	0.47
Packers' total costs on fresh pork	3.65	3.61

order assembly, shipping room, and car-loading dock (table 9). Not all packers reported these detailed costs.

Fall-to-Winter Quarter Changes in Volume and Cost

From October-December 1962 to January-March 1963, packers reported remarkably stable costs for production labor, packaging, order filling and car-loading, procurement, and selling. Fixed plant and administrative expenses dropped 2 percent, from 1.03 to 1.01 cents per wholesale pound (table 8).

These cost changes accompanied a 14 percent increase in volume for the reporting firms. The change in volume was accompanied by no change in direct variable in-plant cost, no significant change in buying and selling costs, and a 6 percent decrease in shipping and delivery costs. There was no change in either killing-room cost or cutting-room cost. In both work areas, jobs are well defined and standardized, and in most plants management varies the length of the workday or week to keep direct labor costs uniform when output changes.

Differences in fresh pork costs showed some relation to size of operation. In general, the largest one-third of the reporting plants showed higher than average costs per pound for brokerage fees and packaging, lower than average costs for plant and administrative costs and buying and selling.

Packers' Costs and Spreads

Several important changes occurred in the cost and returns picture for packers when volume increased sharply and prices fell during the fourth quarter of 1962 and the first quarter of 1963. Wholesale prices, live prices, and by-product values dropped sharply. Packers' costs decreased slightly. Their spread widened as the costs of purchased pork carcasses and cuts decreased. These costs declined nearly one-third and accounted for all of the increase in packers' spread.

The cost to packers of purchased live hogs and pork carcasses and cuts declined 2.96 cents per pound of pork sold from the last quarter of 1962 to the first quarter of 1963, while packers' returns declined 2.77 cents per pound of sales (table 10). Thus, their spread widened 0.19 cent per pound of sales. This spread increased despite the fact that packer's returns per pound of pork sold declined more than the cost of the equivalent quantity of live

Table 9.--Labor costs of dressing fresh pork by operation, at reporting meatpackers' plants, per pound of wholesale cuts, fall and winter, 1962-63

Operation	Oct.-Dec. 1962	Jan.-Mar. 1963
	Cents	Cents
Killing room	0.63	0.63
Primal cuts	.51	.52
Additional trim	.07	.06
All cutting costs	.58	.58
Orderfilling, dock, and car-loading labor	.22	.22
Total labor	1.43	1.43

Table 10.--Fresh pork: Packers' costs and spreads, fall and winter, 1962-63

Item	Oct.-Dec. 1962	Jan.-Mar. 1963
	Cents	Cents
Returns to packers per wholesale pound sold	30.14	27.37
Cost of live hog and pork purchased per wholesale pound sold	26.54	23.58
Packers' spread	3.60	3.79

hog. The cost to packers of buying enough live hog to yield 1 pound of wholesale pork decreased 2.49 cents. Thus, if the packers in this survey had purchased no pork carcasses or cuts in their operations, their spread would have decreased 0.28 cent per pound of pork sold.

Packers' costs other than for materials remained remarkably stable through both quarters even though volume handled increased by about 14 percent for reporting firms. There were wide variations among similar individual plants, however, which emphasizes the need for further study.